

1995

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STATE OF HAWAII—DEPARTMENT OF TAXATION

Instructions for Schedule D-1**Sales of Business Property****(Also Involuntary Conversions and Recapture Amounts Under IRC Sections 179 and 280F)**

(Section references are to the Internal Revenue Code as adopted and incorporated in Chapter 235, HRS.)

(Publication references are to federal Publications.)

CAUTION: Do not confuse this schedule with the federal Schedule D-1.**Who May File**

Any individual, corporation, partnership, estate or trust may file Schedule D-1, unless instructions for the form it relates to (Form N-15, N-30, etc.) provides otherwise such as N-11 and N-12.

Purpose of Form

Use Schedule D-1 to report:

- The sale or exchange of property used in your trade or business; depreciable and amortizable property; oil, gas, geothermal, or other mineral properties; and section 126 property.
- The involuntary conversion (from other than casualty or theft) of property used in your trade or business and capital assets held in connection with a trade or business, or a transaction entered into for profit.
- Disposition of noncapital assets other than inventory or property held primarily for sale to customers in the ordinary course of your trade or business.
- Recapture of section 179 expense deductions for partners and S corporation shareholders from property dispositions by partnerships and S corporations.

- The computation of recapture amounts under sections 179 and 280F(b)(2), when the business use of section 179 or listed property drops to 50% or less.

Do not use this form, unless otherwise stated, to report gain or loss on the disposition of a capital asset; instead, use the Schedule D associated with the return you are filing. (Refer to Schedule D instructions for the definition of a capital asset.)

Other Forms To Use

- Use federal Form 4684, Casualties and Thefts, to report involuntary conversions from casualty and theft.
- Use federal Form 8824, Like-Kind Exchanges, for each exchange. A "like-kind exchange" occurs when you exchange business or investment property for property of like kind. For exchanges of property used in a trade or business (and other noncapital assets), enter the gain or (loss) from federal Form 8824, if any on line 5 or 17.

Special Rules

Installment Sales.—If you sold property at a gain and you will receive a payment in a tax year after the year of sale, you must report the sale on

the installment method unless you elect not to do so.

Use federal Form 6252, Installment Sale Income, to report the sale on the installment method. Also use federal Form 6252 to report any payment received in 1995 from a sale made in an earlier year that you reported on the installment method.

To elect out of the installment method, report the full amount of the gain on a timely filed return (including extensions).

See Publication 537, Installment Sales, for more details.

Recapture of Preproductive Expenses.—If you elected out of the uniform capitalization rules of section 263A, any plant or animal that you produce is treated as section 1245 property. For dispositions of plants and animals reportable on Schedule D-1, enter the recapture amount taxed as ordinary income on line 24. See Publication 225, Farmer's Tax Guide, for more information.

Involuntary Conversion of Property.—You may not have to pay tax on a gain from an involuntary or compulsory conversion of property. See Publication 544, Sales and Other Dispositions of Assets, for details.

At Risk Rules.—If you report a loss on an asset used in an activity for which you are not at risk, in whole or in part, see the instructions for federal Form 6198, At-Risk Limitations. Also get Publication 925, Passive Activity and At-Risk Rules. Losses from passive activities are first subject to the at-risk rules and then to the passive activity rules.

Passive Loss Limitations.—If you have an overall loss from passive activities, and you are reporting a loss on an asset used in a passive activity, use federal Form 8582, Passive Activity Loss Limitations, to see how much of the loss is allowed before entering it on Schedule D-1.

Unused passive activity credits are not allowable when you dispose of your interest in an activity. However, if you dispose of your entire interest in an activity, you may elect to increase the basis of the credit property by the original basis reduction of the property to the extent that the credit has not been allowed because of the passive activity rules. No basis adjustment may be elected on a partial disposition of your interest in an activity. See Publication 925 for details.

Transfer of Appreciated Property to Political Organizations.—Treat a transfer of property to a political organization as a sale of property on the date of transfer if the property's fair market value when transferred is more than your adjusted basis. Apply the ordinary income or capital gains provisions as if a sale actually occurred. See section 84.

Allocation of Purchase Price.—If you acquire or dispose of assets which constitute a trade or business, the buyer and seller must allocate the total purchase price using the "residual method" and file federal Form 8594, Asset Acquisition Statement.

Examples of Items Reportable on this Form.—Where to Make First Entry.

Below are common examples of items reportable on this form. Columns (b) and (c) indicate where to make the first entry on Schedule D-1.		(b) Held one year or less	(c) Held more than one year
(a) Type of property			
1 Depreciable trade or business property:			
a Sold or exchanged at a gain	Part II	Part III (sec. 1245, 1250)	
b Sold or exchanged at a loss	Part II	Part I	
2 Depreciable residential rental property:			
a Sold or exchanged at a gain	Part II	Part III (sec. 1250)	
b Sold or exchanged at a loss	Part II	Part I	
3 Farm land held less than 10 years upon which soil, water, and/or land-clearing expenses were deducted after December 31, 1976:			
a Sold at a gain	Part II	Part III (sec. 1252)	
b Sold at a loss	Part II	Part I	
4 Disposition of certain cost-sharing payments described in section 126	Part II	Part III (sec.1255)	
5 Cattle and horses acquired after December 31, 1974, that were used in a trade or business for draft, breeding, dairy, or sport purposes:	Held less than 24 months	Held 24 months or more	
a Sold at a gain	Part II	Part III (sec. 1245)	
b Sold at a loss	Part II	Part I	
c Raised cattle and horses sold at a gain	Part II	Part I	
6 Livestock other than cattle and horses acquired after December 31, 1974, that were used in a trade or business for draft, breeding, dairy, or sport purposes:	Held less than 12 months	Held 12 months or more	
a Sold at a gain	Part II	Part III (sec. 1245)	
b Sold at a loss	Part II	Part I	
c Raised livestock sold at a gain	Part II	Part I	
Note: All livestock acquired before January 1, 1975, used in a trade or business for draft, breeding, or dairy purposes, receive same treatment as livestock held for 12 months or more.			

Note: All livestock acquired before January 1, 1975, used in a trade or business for draft, breeding, or dairy purposes, receive same treatment as livestock held for 12 months or more.

Federal Form 1099-A, Information Return for Acquisition or Abandonment of Secured Property.—If you receive a federal Form 1099-A from your lender, you may have gain or loss to report because of acquisition or abandonment. See Publication 544 for more information.

Where to Report Transactions on this Form

Page 1 contains a chart identifying examples of property reportable on this form and the part in which you should first report it.

The chart refers to three parts:

Part I is for reporting sales or exchanges of property used in your trade or business and certain involuntary conversions of property or capital assets used in a trade or business, or held for profit, and kept for more than 1 year. You may have to complete Part III before Part I if you disposed of, at a gain, depreciable property (certain amortizable property, certain oil or gas property, or certain farm property) held for more than one year. If livestock is involved, see section 1231 for a longer holding period.

Part II is for reporting gain or loss on the sale, exchange, or involuntary or compulsory conversion of noncapital assets (trade or business property) not reportable in Part I. Examples are: land held one year or less that does not qualify as a capital asset, and certain depreciable property held one year or less (for livestock see section 1231 for a longer holding period), and gains on certain involuntary conversions of capital assets held one year or less.

Part III is for reporting the sale, exchange, or involuntary or compulsory conversion of certain property subject to amortization or depreciation, certain farm property, oil or gas property, or section 126 property. Do not use Part III unless there is a gain and the property was held for more than one year.

Line-by-Line Instructions

To show losses, enclose figures in (parentheses).

Part I

Section 1231 transactions are:

- Sales or exchanges of real or depreciable property used in a trade or business and held for more than 1 year. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it.
- Cutting of timber that the taxpayer elects to treat as a sale or exchange under section 631(a).
- Disposal of timber with a retained economic interest that is treated as a sale under section 631(b).
- Disposal of coal (including lignite) or iron ore mined in the United States with a retained interest that is treated as a sale under section 631(c).
- Sale or exchanges of cattle and horses, regardless of age, used in a trade or business by the taxpayer for draft, breeding, dairy, or sporting purposes and held for 24 months or more from acquisition date.
- Sales or exchanges of livestock other than cattle and horses, regardless of age, used by a taxpayer for draft, breeding, dairy, or sporting purposes and held for 12 months or more from acquisition date.

Note: *Livestock does not include poultry.*

- Sales or exchanges of unharvested crops. See section 1231(b)(4).
- Involuntary conversions of trade or business property or capital assets held in connection with a trade or business or a transaction entered into for profit, and kept more than 1 year.

These conversions may result from (a) part or total destruction, (b) theft or seizure, or (c) requisition or condemnation (whether threatened or carried out). If any recognized losses were from involuntary conversions from fire, storm, shipwreck, or other casualty, or from theft, and they exceed the recognized gains from the conversions, do not include them in figuring your net section 1231 losses.

Section 1231 transactions **do not** include:

- Sales or exchanges of inventory or property held primarily for sale to customers.
- Sales or exchanges of copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property (a) created by your personal efforts, (b) prepared or produced for you (in the case of letters, memoranda, or similar property), or (c) that you received from someone who created them or for whom they were created, as mentioned in (a) or (b), in a way (such as by gift) that entitled you to the basis of the previous owner.
- Sales or exchanges of U.S. Government publications, including the Congressional Record, that you received from the Government, other than by purchase at the normal sales price, or that you got from someone who had received it in a similar way, if your basis is determined by reference to the previous owner's basis.

Line 9.—Nonrecaptured Net Section 1231 Losses—Part or all of your section 1231 gains on line 8 may be taxed as ordinary income instead of receiving long-term capital gain treatment. These net section 1231 gains are treated as ordinary income to the extent of the “nonrecaptured section 1231 losses.” The nonrecaptured losses are net section 1231 losses deducted during the 5 preceding taxable years that have not yet been applied against any net section 1231 gain for determining how much of the gain is ordinary income under these rules.

Example. If you had net section 1231 losses of \$4,000 and \$6,000 in 1990 and 1991 and net section 1231 gains of \$3,000 and \$2,000 in 1994 and 1995, line 8 would show the 1995 gain of \$2,000, and line 9 would show nonrecaptured section 1231 losses of \$7,000 (\$10,000 net section 1231 losses minus the \$3,000 that was recaptured because of the 1994 gain). The \$2,000 gain on line 8 is all ordinary income and would be entered on line 13 of Schedule D-1. For record-keeping purposes, the \$4,000 loss from 1990 is all recaptured (\$3,000 in 1994 and \$1,000 in 1995) and you have \$5,000 left to recapture from 1991 (\$6,000 minus the \$1,000 recaptured this year).

Figuring the prior year losses.—You had a net section 1231 loss if your section 1231 losses exceeded your section 1231 gains. Section 1231 gains are included only to the extent taken into account in computing gross income. Section 1231 losses are included only to the extent taken into account in computing taxable income except that the limitation on capital losses does not apply. Get Publication 544 for more information.

Line 10.—For recordkeeping purposes, if line 10 is zero, the amount on line 8 is the amount of net section 1231 loss recaptured in 1995. If line

10 is more than zero, you have recaptured in 1995 all of your net section 1231 losses from prior years.

Part II

If a transaction is not reportable in Part I or Part III and the property is not a capital asset reportable on applicable Schedule D, report the transaction in Part II.

If you receive ordinary income from a sale or other disposition of your interest in a partnership, get Publication 541, Tax Information on Partnerships.

Line 11.—Report other ordinary gains and losses, including property held one year or less on this line.

Section 1244 (small business) stock.—Individuals report ordinary losses from the sale or exchange (including worthlessness) of section 1244 (small business) stock on line 11. The maximum amount that may be treated as an ordinary loss is \$50,000 (\$100,000, if married filing a joint return). Gains from the sale or exchange of section 1244 stock (and losses in excess of the maximum amount that may be treated as an ordinary loss) are reported on applicable Schedule D.

If you claim a section 1244 stock loss, you must file a statement with your return that specifies:

1. The address of the corporation that issued the stock;
2. The manner in which you acquired the stock;
3. The amount and type of consideration you gave in exchange for the stock; and
4. If you acquired the stock in a nontaxable transaction in exchange for property other than money, the type of property and the adjusted basis and fair market value of the property on the date it was transferred to the corporation.

If you do not file this statement with your return, ordinary loss treatment under section 1244 may not be allowed.

Be sure to keep adequate records to distinguish section 1244 stock from any other stock owned in the same corporation. See Publication 550, Investment Income and Expenses, for more information.

Line 18.—Enter any recapture of section 179 expense deduction included on Schedule K-1 (Form N-20), line 19 and on Schedule K-1 (Form N-35), line 22, but only if it is due to a disposition. Include if only to the extent that you took a deduction for it in an earlier year. See instructions for Part IV if you have section 179 recapture when the business use percentage of property dropped to 50% or less.

Line 20b(1).—You must complete this line if there is a gain on Schedule D-1, line 3; a loss on Schedule D-1, line 12; and a loss on federal Form 4684, line 35, column (b)(ii). Enter on this line and on Worksheet A-5 in the Instructions for Forms N-11/N-12 (Form N-12 filers), or Schedule A (Form N-15), line 18, as the case may be, the smaller of the loss on Schedule D-1, line 12; or the loss on federal Form 4684, line 35, column (b)(ii). To figure which loss is smaller, treat both losses as positive numbers. See Form N-11 Instructions when using Form N-11 instead of N-12.

Part III

Part III is used to compute recapture of depreciation and certain other items that must be reported as ordinary income on the disposition of property. Fill out lines 21 through 26 to determine the gain on the disposition of the property. If you have more than four properties to report, use

additional forms. For more information, see Publication 544.

Note: If the property was sold on the installment sales basis, see the *Instructions for federal Form 6252 before completing this part*. Also, if you have both installment sales and non-installment sales, you may want to use a separate *Schedule D-1, Part III, for each installment sale and one Schedule D-1, Part III, for the non-installment sales*.

Line 22.—The gross sales price includes money, the fair market value of other property received, and any existing mortgage or other debt the buyer assumes or takes the property subject to. For casualty or theft gains, include insurance or other reimbursement you received or expect to receive for each item. Include on this line your insurance coverage, whether or not you are submitting a claim for reimbursement.

For section 1255 property, show the amount realized from the sale, exchange, or involuntary conversion. Enter the fair market value for any other disposition.

Line 23.—The asset basis used on this line should be determined without taking into account any reduction under section 179 (expense deduction) which is to be accounted for on line 24.

Line 24.—This line should show all adjustments for deductions (whether for the same or other property) allowed or allowable to you or any other person for depreciation or amortization. If you are not a partnership or an S corporation, use the following computation to determine the amount to enter on line 24:

- **Add** preproductive expenses, depreciation, amortization, or depletion allowed or allowable.
- **Add** the section 179 expense deducted.
- **Subtract** any section 179 or 280F recapture amount included in gross income in a prior tax year because the business use of the property dropped to 50% or less.

You may have to include depreciation allowed or allowable on another asset (and recompute the basis amount for line 23) if you use its adjusted basis in determining the adjusted basis of the property described on line 21. An example is property acquired by a trade-in. See Regulations section 1.1245-2(a)(4).

Partnerships should enter the deductions for depreciation, amortization, or depletion allowed or allowable on line 24. Enter the section 179 expense deduction on Form N-20, Schedule K, line 19.

S corporations should enter the deduction for depreciation, amortization, or depletion allowed or allowable on line 24. Enter the section 179 expense deduction on Form N-35, Schedule K, line 17 but only if you are disposing of property acquired in tax years beginning after 1982.

Line 25.—For section 1255 property, enter the adjusted basis of the section 126 property disposed of.

Line 27.—Section 1245 Property

Section 1245 property is depreciable (or amortizable under section 185 (repealed) or 1253(d)(2) or (3) (as in effect before the enactment of Public Law 103-66)) and is one of the following:

- Personal property.
- Livestock held for draft, breeding, dairy, or sport purposes.

- Elevators and escalators placed into service before 1-1-87.
- Real property (other than property described under tangible real property below) subject to amortization or deductions under section 169, 179, 185 (repealed), 188 (repealed), 190, 193, or 194.

- Tangible real property (except buildings and their structural components) if it is used in any of the following ways:

- (1) As an integral part of manufacturing, production, extraction, or furnishing transportation, communications, or certain other public utility services.
- (2) As a research facility in these activities.
- (3) For the bulk storage of fungible commodities (including commodities in a liquid or gaseous state) used in these activities.

- A single purpose agricultural or horticultural structure (as defined in section 168(i)(13)).
- A storage facility (not including a building or its structural components) used in connection with the distribution of petroleum or any primary product of petroleum.

See section 1245(b) for exceptions and limits involving:

- Gifts.
- Transfers at death.
- Certain tax-free transactions.
- Certain like-kind exchanges, involuntary conversions, etc.
- Sales or exchanges to carry out FCC policies, and exchanges to comply with SEC orders.
- Property distributed by a partnership to a partner.
- Transfers to tax-exempt organizations where the property will be used in an unrelated business.
- Timber property.

See the following section for special rules:

- Section 1245 (a)(4) for player contracts and section 1056(c) for information required from the transferor of a franchise of any sports enterprise if the sale of exchange involves the transfer of player contracts.
- Section 1245(a)(5) as in effect before the Tax Reform Act of 1986 for property placed in service before 1-1-87, when only a portion of a building is section 1245 recovery property.
- Section 1245(a)(6) as in effect before the Tax Reform Act of 1986, for qualified lease property placed in service by 1-1-87.

Line 28.—Section 1250 Property

Section 1250 property is depreciable real property (other than section 1245 property). ACRS deductions under section 168 are subject to recapture under section 1245 except for the following, which are treated as section 1250 property if the property was placed in service before 1-1-87.

- 15-year, 18-year, or 19-year real property and low-income housing which is residential rental property.
- 15-year, 18-year, or 19-year real property and low-income housing which is used mostly outside the United States.
- 15-year, 18-year, or 19-year real property and low-income housing for which a straight line election was made.

- Low-income rental housing as described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B). See instructions for line 28b.

Section 1250 recapture applies to certain recovery property and to depreciable nonrecovery real property when an accelerated depreciation method was used.

The section 1250 recapture rules **do not** apply to dispositions of 27.5-year (or 40-year, if elected) residential rental property or 22-year, 31.5-year, or 39-year (or 40-year, if elected) nonresidential real property, placed in service after 12-31-86 (or after 7-31-86, if the election is made).

See section 1250(d) for exceptions and limits involving:

- Gifts.
- Transfers at death.
- Certain tax-free transactions.
- Certain like-kind exchanges, involuntary conversions, etc.
- Sales or exchanges to carry out FCC policies, and exchanges to comply with SEC orders.
- Property distributed by a partnership to a partner.
- Disposition of a main home.
- Disposition of qualified low-income housing.
- Transfers of property to tax-exempt organizations where the property will be used in an unrelated business.
- Disposition of property as a result of foreclosure proceedings.

Special Rules

- For additional depreciation attributable to rehabilitation to rehabilitation expenditures, see section 1250(b)(4).
- If substantial improvements have been made, see section 1250(f).

Lines 28a, 28d, and 28g.—For property held for more than one year, additional depreciation is the excess of actual depreciation attributable to periods after December 31, 1964, over depreciation computed for the same period using the straight line method. Enter on line 28a the additional depreciation for the period after December 31, 1976, on line 28d the additional depreciation for the period after December 31, 1974, and before January 1, 1977, and on line 28g the additional depreciation for the period after December 31, 1964, and before January 1, 1975.

If the depreciation figured using the straight line method is more than the actual depreciation taken for any period, the additional depreciation for the next prior period should be reduced, but not below zero, by that amount.

Line 28b.—Use 100% as the percentage for this line, except for low-income rental housing described in clause (i), (ii), (iii), or (iv) of section 1250(a)(1)(B). For this type of low-income rental housing, see section 1250(a)(1)(B) for the percentage to use.

Line 28e.—Use 100% as the percentage for this line, except for residential rental property (and property disposed of under a written contract binding at all times since July 24, 1969). For this type of property, see section 1250(a)(2)(B) for the percentage to use.

Line 28h.—The applicable percentage is 100 percent minus one percent for each full month the property was held for more than 20 full months.

Line 29.—Section 1252 Property

Partnerships should skip this section. Partners should enter on the applicable lines of Part III amounts subject to section 1252 according to instructions from the partnerships.

You may have ordinary income on the disposition of certain farmland held for more than 1 year but less than 10 years.

Refer to section 1252 to determine if there is ordinary income on the disposition of certain farmland for which deductions were allowed for expenditures made after December 31, 1976, under sections 175 (soil and water conservation) and 182 (land clearing) as in effect before January 1, 1986. If you dispose of such farmland within the 10th or later year after you acquire it, skip line 29.

Gain from disposition of certain farmland is subject to ordinary income rules under section 1252 before being considered under section 1231 (Part I).

Line 29b.—Enter 100 percent of line 29a on line 29b except as follows:

- 80 percent if the farmland was disposed of within the sixth year after acquisition;
- 60 percent if disposed of within the seventh year;
- 40 percent if disposed of within the eighth year;
- 20 percent if disposed of within the ninth year; or
- zero, if disposed of within the tenth or later year.

Line 30.—Section 1254 Property

If you dispose of oil, gas, or geothermal property placed in service before 1-1-87 at a gain, treat all or part of the gain as ordinary income. Include on line 24 any depletion allowed (or allowable) in determining the adjusted basis of the property.

If you dispose of oil, gas, geothermal, or other mineral properties (section 1254 property) placed in service after 12-31-86 at a gain, you must recapture all expenses that were deducted as intangible drilling costs, depletion, mine exploration costs, and development costs, under sections 263, 616, and 617.

Exception: Property acquired under a written contract entered into before 9-26-85 and binding at all times thereafter, is excluded from this change.

Previously expensed mining costs, that have been included in income upon reaching the producing state, are not taken into account in determining recapture under section 1254.

Line 30a.—If the property was placed in service before 1-1-87, enter the total amount of expenses after 12-31-76 that:

- were deducted by the taxpayer or any other person as intangible drilling and development costs under section 263(c); and
- would have been reflected in the adjusted basis of the property if they had not been so deducted.

If the property was placed in service after 12-31-86, enter the total amount of expenses that:

- were deducted under section 263, 616, or 617 by the taxpayer or any other person; and
- which, but for such deduction would have been included in the basis of the property; plus
- the deduction under section 611 which reduced the adjusted basis of such property.

If you dispose of a portion of section 1254 property or an undivided interest in it, see section 1254(a)(2).

Line 31.—Section 1255 Property

Line 31a.—Use 100 percent if the property is disposed of less than 10 years after receipt of payments excluded from income. Use 100 percent minus 10 percent for each year, or part of a year, that the property was held over 10 years. Use zero if 20 years or more.

Part IV

Section 179 Property.—If you took a deduction under section 179 for property placed in service before 1-1-87 (other than listed property, as defined in section 280F(d)(4)), and the business use of the property was reduced to 50% or less during either of the two taxable years following the taxable year the property was placed in service,

complete column (a) of lines 35 through 37 to figure the amount to be recaptured.

For property placed in service after 12-31-86 the recapture must be made if the property is not used predominantly in your trade or business at any time.

Section 280F Property.—If you have listed property that you placed in service in a prior year and the business use percentage dropped to 50% or less this year, you must figure the amount to be recaptured. Complete column (b), lines 35 through 37.

Note: *If you have more than one property subject to the recapture rules, use a separate schedule to figure the recapture amounts and attach the statement to your tax return.*

Line 35.—Column (a)—Enter the section 179 expense deducted when the property was placed in service.

Column (b)—Enter the depreciation allowable on the property in prior tax years. Include any section 179 expense deduction you took as depreciation.

Line 36.—Column (a)—Enter the depreciation deductions that would have been allowed on the section 179 amount from the year it was placed in service until the current year.

Column (b)—Enter the depreciation that would have been allowable if the property had not been used more than 50% in a qualified business. Figure the deductions from the year it was placed in service until the current year. See Publication 534, Depreciation, and Publication 917 for more information.

Line 37.—Subtract line 36 from line 35 and enter the recapture amount as “other income” on the same form or schedule you took the deduction. For example, if you took the deduction on federal Schedule C (Form 1040), report the recapture amount as other income on federal Schedule C (Form 1040). See Form N-11 Instructions when using N-11 instead of N-12.

Be sure to increase the basis of the property by the recapture amount.